

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Hantam Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Hantam Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2017, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Hantam Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with standards of Generally Recognised Accounting Practice (Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence that all community assets for the year under review had been accounted for, due to the status of the accounting records. I could not confirm whether all community assets stated at R7 738 110 in note 12 to the financial statements had been recorded by alternative means. Additionally, the municipality did not assess at each reporting date whether there is any indication that property, plant and equipment may be impaired in accordance with GRAP 21, *Impairment of non-cash-generating assets*. I was unable to determine the impact on the net carrying amount of property, plant and equipment stated at R188 666 476, as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the period and on the accumulated surplus.

Commitments

4. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I could not confirm the amounts by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments stated at R66 330 135 (2016: R21 754 831) in the financial statements.

Context for the auditor's opinion

5. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
6. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 40 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of the Municipal Standard Chart of Accounts being implemented on the municipality's financial statements at, and for the year ended, 30 June 2017.
10. As disclosed in notes 41 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2017.

Material impairments - receivables

11. As disclosed in note 18 to the financial statements, a significant provision for the impairment of receivables from exchange transactions of R34 009 632 (2016: R27 525 315) of the total receivables from exchange transactions was provided, which represents 86% (2016: 85%).
12. As disclosed in note 19 to the financial statements, a significant provision for the impairment of receivables from non-exchange transactions of R8 605 708 (2016: R7 240 660) of the total receivables from non-exchange transactions was provided, which represents 70% (2016: 72%).

Material losses - electricity

13. As disclosed in note 48.8 to the financial statements, material electricity losses to the amount of R3 584 826 (2016: R 4 892 660) was incurred, which represents 14% (2016: 25%) of total electricity purchased. The electricity losses were mainly due to electricity theft on prepaid meters.

Other matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary information

15. The supplementary information set out in pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

16. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

17. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with standards of GRAP and the requirements of the MFMA and Dora and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
18. In preparing the financial statements, the accounting officer is responsible for assessing the Hantam Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

19. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
20. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Introduction and scope

21. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
22. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
23. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
Objective 3 – Maintain a financially sustainable and viable municipality.	x – x
Objective 5 – Sustainable Infrastructure Development and Basic Service Delivery.	x – x

24. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
25. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Objective 3 – Maintain a financially sustainable and viable municipality.**Various indicators**

26. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators as per the table below. This was due to a lack of technical indicator descriptions, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported, as required by the Framework for managing programme performance information (FMPPI). I was unable to confirm that the reported achievements of these indicators were reliable by alternative means. Consequently, I

was unable to determine whether any adjustments were required to the reported achievements.

Performance indicator	Reported achievement
Number of formal residential properties that which are billed for water or have pre-paid meters that is connected to the municipal water infrastructure network as at 30 June 2017	4 597
Number of formal residential properties which are billed for electricity or have pre-paid meters as at 30 June 2017 (excluding Eskom areas)	2 421
Number of formal residential properties connected to the municipal waste water sanitation/sewerage network for sewerage service, irrespective of the number of water closets (toilets) which are billed for sewerage as at 30 June 2017.	4 597
Number of formal residential properties which are billed for refuse removal as at 30 June 2017	4 597
Financial viability measured in terms of the municipality's ability to meet its service debt obligations at 30 June 2017 {Debt to Revenue (Short Term Borrowing + Bank Overdraft + Short Term Lease + Long Term Borrowing + Long Term Lease) / Total Operating Revenue - Operating Conditional Grant}	25.1
Financial viability measured in % in terms of the total amount of outstanding service debtors in comparison with total revenue received for services at 30 June 2017 {Net Service debtors to revenue – (Total outstanding service debtors minus provision for bad debt)/ (revenue received for services) x100}	49.61%
Financial viability measured in terms of the available cash to cover fixed operating expenditure at 30 June 2017 {Cost coverage ((Cash and Cash Equivalents - Unspent Conditional Grants - Overdraft) + Short Term Investment) / Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, and Provision for Bad Debts, Impairment and Loss on Disposal of Assets))}	0.96

Objective 5 – Sustainable infrastructure development and basic service delivery.

Various indicators

27. I was unable to obtain sufficient appropriate audit evidence for the reported achievements of the indicators as per the table below. This was due to a lack of technical indicator descriptions, proper performance management systems and processes with formal standard operating procedures that predetermined how the achievement would be measured, monitored and reported, as required by the Framework for managing programme performance information (FMPPI). I was unable to confirm that the reported achievements of these indicators were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Performance indicator	Reported achievement
Provide free basic water to indigent households earning less than R4500 as at 30 June 2017	1 529
Provide free basic electricity to indigent households earning less than R4500 as at 30 June 2017	1 293
Provide free basic sanitation to indigent households earning less than R4500 as at 30 June 2017	1 293
Provide free basic refuse removal to indigent households earning less than R4500 as at 30 June 2017	1 293
The percentage of the municipal capital budget actually spent on capital projects by 30 June 2017 (Actual amount spent on capital projects /Total amount budgeted for capital projects)X100 by 30 June 2016	81%
95% spent of the library operational conditional grant by 30 June 2017 {(Actual expenditure divided by the total grant received) x 100}	95%
Increase debt recovery rate to 85% by 30 June 2017 {(Gross Debtors Closing Balance + Billed Revenue - Gross Debtors Opening Balance + Bad Debts Written Off)/Billed Revenue x 100}	81%

Performance indicator	Reported achievement
95% of the RBIG budget spent for water shortage in Loeriesfontein by 30 June 2017 {(Actual amount spent on the project /Total amount budgeted for the project) X100}	119%
95% of the RBIG budget spent for water shortage in Brandvlei by 30 June 2017 {(Actual amount spent on the project /Total amount budgeted for the project) X100}	0%
95% of the MIG budget spent to pave streets by 30 June 2017 {(Actual amount spent on the project /Total amount budgeted for the project) X100}	115%
95% of the INEP budget spent to upgrade electricity network by 30 June 2017 {(Actual amount spent on the project /Total amount budgeted for the project) X100}	0%

Other matter

28. I draw attention to the matter below.

Achievement of planned targets

29. Refer to the annual performance report on pages x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 26 to 27 of this report.

Report on audit of compliance with legislation

Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

31. The material findings on compliance with specific matters in key legislations are as follows:

Budgets

32. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R24 270 989 as disclosed in note 47.1 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The unauthorised expenditure was caused by overspending on the municipality's budget.

Annual financial statements, performance reports and annual reports

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
34. The annual performance report for the year under review did not include the performance of each external services provider as required by section 46 (1)(a) of the MSA.

Expenditure management

35. Money owed by the municipality was not always paid within 30 days / an agreed period, as required by section 65(2)(e) of the MFMA.
36. Effective steps were not taken to prevent irregular expenditure amounting to R36 653 713 as disclosed in note 47.3 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The value of the amount disclosed in note 47.3 is not complete as management was in the process of quantifying the full extent of the irregular expenditure. The majority of the irregular expenditure was caused by non-compliance with SCM Regulations.
37. Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R57 000, as disclosed in note 47.2 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The fruitless and wasteful expenditure was mainly caused by a payment to a supplier for services not rendered to the municipality.

Strategic planning and performance management

38. The local community was not afforded the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the MSA and municipal planning and performance management regulation 15(3).
39. A performance management system was not established as required by section 38(a) of the MSA and municipal planning and performance management regulation 8.

Procurement and contract management

40. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as tender documents were not provided.
41. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
42. Some of the quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements

prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b). Similar non-compliance was also reported in the prior year.

43. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
44. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R500 000 were procured by inviting competitive bids as required by SCM regulations 19(a).
45. Sufficient appropriate audit evidence could not be obtained that all extensions or modifications to contracts were approved by a properly delegated official, as required by SCM regulation 5.
46. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Human resource management

47. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted as required by section 67(1)(d) of the MSA.
48. The acting municipal manager did not sign a performance agreement within the prescribed period, as required by section 57(2)(a) of the MSA.

Utilisation of conditional grants

49. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant, as required by section 12(5) of the Division of Revenue Act.
50. The municipality did not evaluate its performance in respect of programmes or functions funded by the Regional Bulk Infrastructure Grant, as required by section 12(5) of the Division of Revenue Act.

Consequence management

51. No evidence was obtained to confirm that unauthorised expenditure was investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA..
52. Unauthorised expenditure was certified by council as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(a)(ii) of the MFMA.
53. No evidence was obtained to confirm that irregular expenditure incurred by the municipality was investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA..

54. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA..

Asset management

55. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Other information

56. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
57. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
58. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
59. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate; however, if it is corrected this will not be necessary.

Internal control deficiencies

60. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.
- The accounting officer did not exercise adequate oversight responsibility over the preparation of the financial statements, the report on predetermined objectives, compliance with laws and regulations, and internal control. The leadership did not implement adequate processes to ensure that reviews took place before information was submitted. This was evidenced by the material misstatements in the financial statements, non-compliance with laws and regulations and internal control deficiencies noted throughout the audit process.

- Senior management did not adhere to internal controls, which resulted in various instances of irregular and unauthorised expenditure being incurred and other material misstatements in the financial statements, not detected by management.
- Management is in process of establishing, updating and communicating policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities within the municipality.
- Material misstatements were made in the financial statements as these were not accurate and complete, because senior management did not detect misstatements during the review process. This indicates that there were weaknesses in internal control with regard to the review process of the financial statements. Furthermore, the financial statements were not sufficiently reviewed for completeness and accuracy prior to submission for auditing.
- There were deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.
- The supply chain management unit of the municipality did not always function effectively. The necessary procedures were not always followed.
- An appropriate risk management activity was not implemented to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.

Other reports

61. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

62. Fraud allegations against the former municipal manager are still under investigation. The matter has been reported to the South African Police Service. The investigation was still ongoing at the reporting date.

Auditor General.
Kimberley

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hantam Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other

matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.